North Carolina

Economic conditions in North Carolina continued to improve through late 2004.

- North Carolina's economic recovery continued to strengthen into late 2004 with job growth comparable to the national average (See Chart 1). Leading economic indicators suggest that economic growth is expected to continue nationally in 2005, though perhaps at a moderating pace. North Carolina's economic progress likely will track the nation.

- Large manufacturing exposures led to a comparatively more severe recession for North Carolina and have, subsequently, held back a more robust recovery. Since 2000, the state has lost more than 175,000 manufacturing jobs as both traditional and emergent high-tech producers floundered.

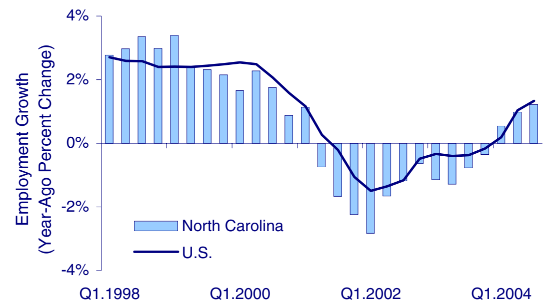
- In 2005, textiles, apparel, and furniture manufacturers likely will face even greater competitive pressures with the removal of import quotas. The state's high-tech industries, in contrast, have seen some improvement as companies have announced expansion and relocations, particularly in ***Raleigh***. High-tech optimism was further bolstered in the state in November 2004 with Dell's announcement that it had selected the metro area as the location for a new facility that will directly employ 1,500 by the end of the decade. As many as 6,000 jobs will be created indirectly from Dell suppliers and vendors.

- Jobless rates in North Carolina fell substantially in late 2004 but declines in the size of the labor force may mask the fact that unemployed workers have dropped out of the labor force because of limited employment opportunities in some areas. Rates of unemployment varied widely throughout the state with the highest levels generally persisting in rural areas along the Virginia and South Carolina borders (See Map 1).

Home price appreciation in some residential real estate markets has not kept pace with inflation.

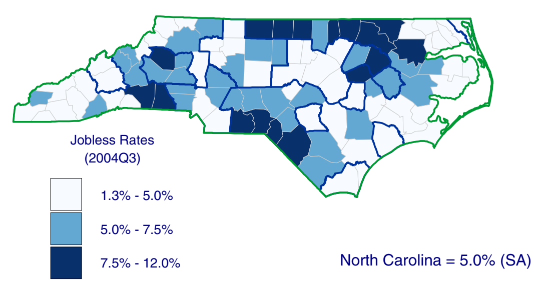
- Home price appreciation remained exceptionally weak. None of the state's metropolitan areas saw price gains on par with the national average through mid-year, and ***Charlotte***, ***Goldsboro***, ***Hickory***, Raleigh, and ***Rocky***

Chart 1: Job Growth in North Carolina Has Kept Pace With the Nation



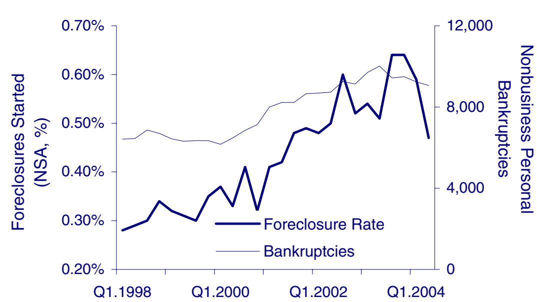
Source: Bureau of Labor Statistics/Haver Analytics

Map 1: North Carolina Jobless Rates Remain High in Many Rural Counties



Note: County data not seasonally-adjusted.
Source: Bureau of Labor Statistics/Haver Analytics

Chart 2: Consumer Credit Quality in North Carolina Has Shown Some Improvement



Source: US Courts, Mortgage Bankers Association (Haver Analytics)

Mount failed to keep pace with inflation. Permit issuance in the state remains at record high levels, indicating that residential construction activity likely will continue at robust levels into 2005.

- At community banks[1] in North Carolina, construction and development (C&D) lending, which is primarily for residential real estate construction, grew 33 percent during the 12-month period ending September 30, 2004. This compares to a 21 percent growth rate in the year earlier period. At the end of third quarter 2004, C&D loans accounted for 11.3 percent of the state's total assets, up from 9.5 percent in the previous annual period.

Consumer credit quality in North Carolina has improved.

- Consumer credit quality conditions may have shown some modest signs of improvement in 2004 (See Chart 2) as the economy began to turn around. The personal bankruptcy rate is more than 100 basis points below the national average as filings have been trending downward. Foreclosure rates also retreated significantly during the first half of 2004.

- At the end of third quarter 2004, home equity loans (HEL) grew 25 percent over the 12-month period to 6.5 percent of assets, up from 5.7 percent a year earlier. While still a relatively small asset class, consumers still remain vulnerable to a sharp rise in interest rates which would yield higher debt service burdens. However, as of September 30, 2004, signs of stress in the HEL portfolio had yet to emerge.

- Commercial real estate (CRE) conditions in the state's two largest metropolitan areas, Charlotte and Raleigh, have seen only limited improvement during the past year. Continued economic growth in 2005, however, may lend itself to increased levels of absorption, especially in areas such as Raleigh's office sector where a revival in high-tech industries may be emerging, and further advancement in market conditions.

- Nonresidential real estate loans (CRE) remained a major part of the total loan portfolio at close to 19 percent of assets. On a merger-adjusted basis, these loans grew a solid 18 percent during the 12 months ending September 30, 2004, but this is well below the 32 percent accretion in September of 2001, and it is the third consecutive annual period of slower growth. Despite a seasoning in this loan sector, CRE loan performance remained in good shape.

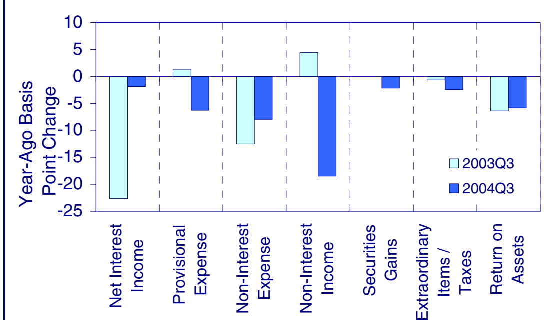
[1]Community banks have assets less than $1 billion dollars and exclude denovos and specialty institutions. This group of banks has been adjusted for mergers.

Profitability measures remain mostly steady at North Carolina banking institutions.

- After falling off in 2003, a resurgence in earnings growth culminated with a 9 percent increase in net income at September 30, 2004. This compares to only a 4 percent rate of growth in the year earlier period and was still well below the 37 percent growth rate of third quarter 2002. Profitability measures have been mostly stable year-over-year as both the median net interest margins (NIMs) and return on asset (ROA) ratios remained at 3.69 and 0.80 percent; respectively. Lower noninterest expense offset a decline in noninterest revenue. (See Chart 3).

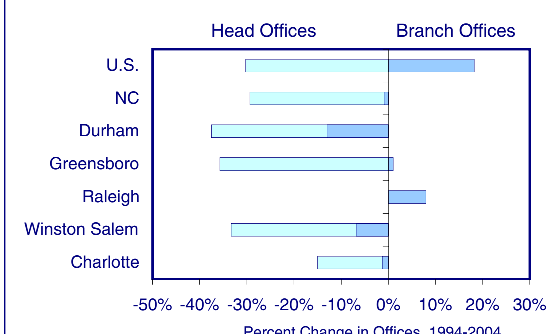
- In addition to a reduction in head offices, branching activity in North Carolina has been mostly stagnant over the 10-year period from 1994 to 2004 with branching growth at the state level running well below the nation during this decade. Raleigh and Greensboro were the only metro areas to report growth in branching activity during this period (See Chart 4).

Chart 3: Contributions to Return on Assets at North Carolina Community Banks



Source: FDIC (Aggregate Year-to-Date)

Chart 4: Branching Activity has Eluded North Carolina



Source: FDIC/OTS Summary of Deposits

North Carolina at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	108	106	110	119	116
Total Assets (in thousands)	1,261,433,954	1,095,900,184	1,006,675,762	996,049,039	994,666,883
New Institutions (# < 3 years)	9	10	15	22	22
New Institutions (# < 9 years)	40	38	40	41	37

Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	9.85	9.42	9.60	9.89	10.57

Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	1.22%	1.60%	1.50%	1.61%	1.24%
Past-Due and Nonaccrual >= 5%	6	7	8	8	7
ALLL/Total Loans (median %)	1.26%	1.30%	1.32%	1.31%	1.33%
ALLL/Noncurrent Loans (median multiple)	1.99	2.04	2.50	1.94	2.34
Net Loan Losses/Loans (aggregate)	0.20%	0.46%	0.76%	0.76%	0.42%

Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	10	10	14	21	20
Percent Unprofitable	9.26%	9.43%	12.73%	17.65%	17.24%
Return on Assets (median %)	0.75	0.82	0.82	0.65	0.81
25th Percentile	0.51	0.56	0.58	0.20	0.38
Net Interest Margin (median %)	3.66%	3.68%	3.84%	3.61%	4.09%
Yield on Earning Assets (median)	5.38%	5.70%	6.57%	7.87%	8.28%
Cost of Funding Earning Assets (median)	1.69%	2.03%	2.65%	4.24%	4.22%
Provisions to Avg. Assets (median)	0.19%	0.19%	0.24%	0.20%	0.19%
Noninterest Income to Avg. Assets (median)	0.74%	0.91%	0.75%	0.60%	0.55%
Overhead to Avg. Assets (median)	2.79%	2.92%	2.85%	2.94%	3.07%

Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	93.88%	89.54%	88.49%	89.12%	89.41%
Loans to Assets (median %)	74.20%	72.36%	71.79%	69.99%	71.71%
Brokered Deposits (# of Institutions)	51	37	33	23	22
Bro. Deps./Assets (median for above inst.)	4.74%	4.01%	5.63%	2.63%	2.17%
Noncore Funding to Assets (median)	25.98%	23.00%	23.72%	22.67%	19.52%
Core Funding to Assets (median)	59.23%	63.54%	62.42%	63.56%	64.96%

Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	58	56	57	63	61
National	6	6	7	8	9
State Member	8	8	8	7	2
S&L	7	7	8	8	10
Savings Bank	9	9	9	9	9
Stock and Mutual SB	20	20	21	24	25

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	35	11,443,378	32.41%	0.91%
Greensboro--Winston-Salem--High Point NC	18	80,167,100	16.67%	6.36%
Charlotte-Gastonia-Rock Hill NC-SC	18	1,127,951,575	16.67%	89.42%
Raleigh-Durham-Chapel Hill NC	13	15,801,887	12.04%	1.25%
Hickory-Morganton NC	6	2,347,084	5.56%	0.19%
Wilmington NC	4	1,137,100	3.70%	0.09%
Rocky Mount NC	4	20,138,635	3.70%	1.60%
Asheville NC	4	891,776	3.70%	0.07%
Greenville NC	2	50,027	1.85%	0.00%
Fayetteville NC	2	353,223	1.85%	0.03%
Norfolk-Virginia Bch-Newport News VA-NC	1	131,153	0.93%	0.01%
Goldsboro NC	1	1,021,016	0.93%	0.08%